

# **Australian Labour and Employment Relations Association**

## **National Conference**

### **Fremantle Western Australia**

**7 October 2011**

Minister, other distinguished guests, ladies and gentlemen, first thank you to the organisers of this National Conference and in particular Melanie Binet for the invitation to speak today and for giving me no option but to accept. It is always a pleasure to be involved with conventions and conferences sponsored by bodies such as this one and particularly the national conference. The popularity of such events has waxed and waned over the years (my first attendance was in Shepparton in the 70's) and from State to State but at the present time interest seems to be as high as it has ever been. The aim of these organisations - to provide a forum for the civilised exchange of ideas between practitioners and theorists of all interests - remains a desirable and useful objective. The people who voluntarily maintain these bodies and stage conferences such as this one deserve our thanks for their hard work and commitment. The conference program is a good one, the present speaker excluded of course, and I am sure that your attendance will be well rewarded.

As many of you will have heard me say before it is difficult on occasions such as this to fulfil the expectations of the organisers. Their primary objective is to generate controversy while my principal aim is to avoid it. To put it another way, my task is to say something of interest while not providing any grounds for suspicion that I have prejudged any controversial issues.

Some of you may be aware of, or even have attended, an international conference sponsored by the Australian Industrial Relations Commission in Melbourne in 2007. The heads of the dispute resolution bodies of 7 countries spoke at the conference. There is a regular meeting, usually annual, of the heads of those bodies at which we discuss developments and exchange experiences. With that in mind I would like to introduce some international perspectives on employment relations and, against that background, to raise some broad policy considerations on the domestic front.

To start, it is clear that among the developed economies we have fared very well in relative terms during and after the GFC (or WEM), even taking into account some of the natural disasters which have so badly affected Queensland and other Northern parts of the continent within the last 12 months. A number of the member countries of the European Union have sovereign debt problems which are affecting financial and equity markets throughout the world, Europe and North America in

particular. Many Governments which provided funds to protect their economies from recession and to support their banking systems during the worst of the GFC are being forced to cut expenditure not only to reduce debt but also in some cases to provide further funds to other economies at risk of default. And in the United States the effects of the collapse in property prices three years ago are also still being felt. There is a great deal of uncertainty around the world and even in Australia, where our direct exposure to these problems may be limited, we have not been and will not be immune.

With Governments in most of the developed economies curtailing spending or deferring planned expenditures there are likely to be significant employment effects not confined to the public sector. In the United States, for example, companies and unions that could resolve conflicts during periods of economic growth are encountering difficulties because of the current state of the economy. Bargaining is therefore more difficult. Many State and local governments are not able to afford increases and are seeking significant concessions as their tax and other revenues decrease. In some States, bargaining rights have been curtailed by legislative action in response to the situation. Bargaining over health care benefits remains the largest single contributor to labour disputes and stoppages in the United States, despite the *Patient Protection and Affordable Care Act 2010*. There is major bargaining activity in a number of Government funded areas such as health care, public schooling and the federal public service, in the context of high unemployment and constrained economic growth.

In the UK, which has its first coalition government for more than 50 years, there have been significant reductions in public spending to help curtail the deficit incurred in response to the GFC. This continues to cause significant anxiety and dislocation in the public sector over spending cuts and foreshadowed adjustments to public sector pensions.

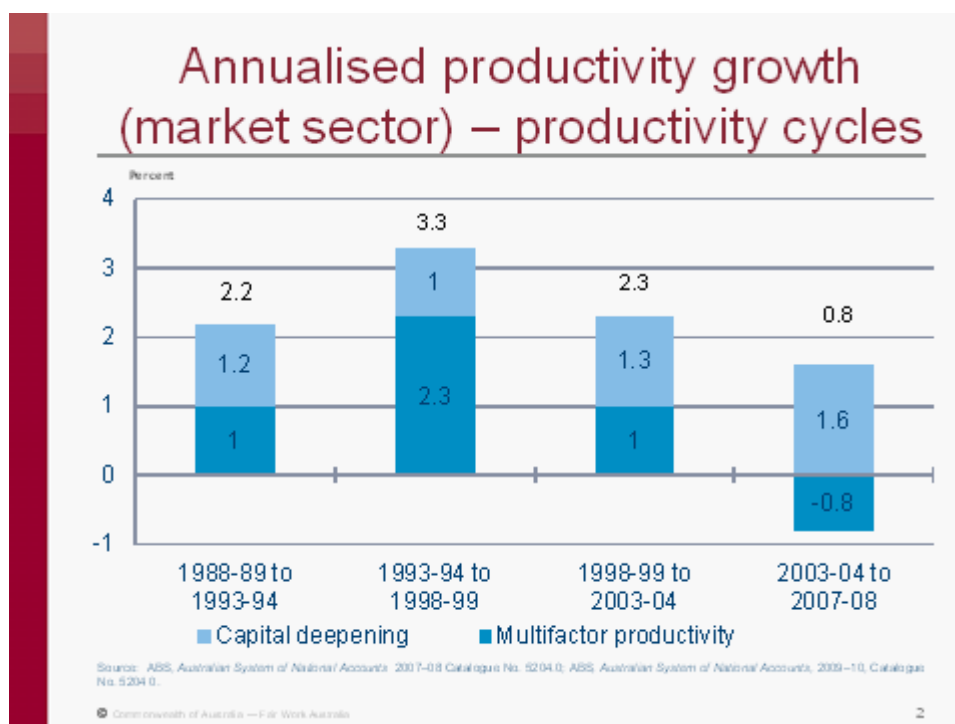
In the UK, as in other parts of Europe, the relatively unfettered migration of labour within the European Union presents many labour market and workplace relations issues which may have some relevance for policy makers in Australia.

It is well known that a number of members of the EU are in considerable economic and financial difficulty. Ireland is an example of an economy which seems to be making progress. Some statistics will illustrate the magnitude of the crisis. Between 2007 and 2011 GDP in Ireland declined by 11.3%. Insolvencies increased by around 80%. Unemployment is currently 14.3%. The ratio of the national debt to GDP is more than 110%. That is around the midpoint of the debt levels of the EU members most affected by sovereign debt issues. As a point of comparison, in Australia our debt to GDP ratio is currently less than 10%. These conditions place enormous pressure on public expenditure in Ireland and of course on employment. It appears, however, that Ireland is meeting its debt reduction targets and is on the way to recovery.

If we could speak in general terms about Australia, with the qualification that there is always another data release just around the corner, as we know, different industries have been affected to varying degrees by international conditions and a switch in consumer sentiment away from spending to saving is having an effect. GDP growth, however, to the extent it can be relied upon as an indicator of economic performance, is positive. Unemployment has increased only slightly in international terms. Inflation seems under control. Despite Australia's relatively good economic performance, concerns have been expressed in some quarters about the prolonged lull in productivity growth. With that in mind it may be useful to take a longer term, broader view of the economic data.

It is instructive, in particular, to look at some long run productivity measures. When commentators talk about productivity they are usually referring to multi-factor productivity. The measure of productivity growth which is commonly used is multi-factor productivity in the market sector. The ABS cautions against the accuracy of annual and quarterly figures and also produces data on productivity cycles based on annual average rates of growth in the market sector between peaks in the productivity cycle.

**CHART A - Annualised productivity growth (market sector) - productivity cycles**



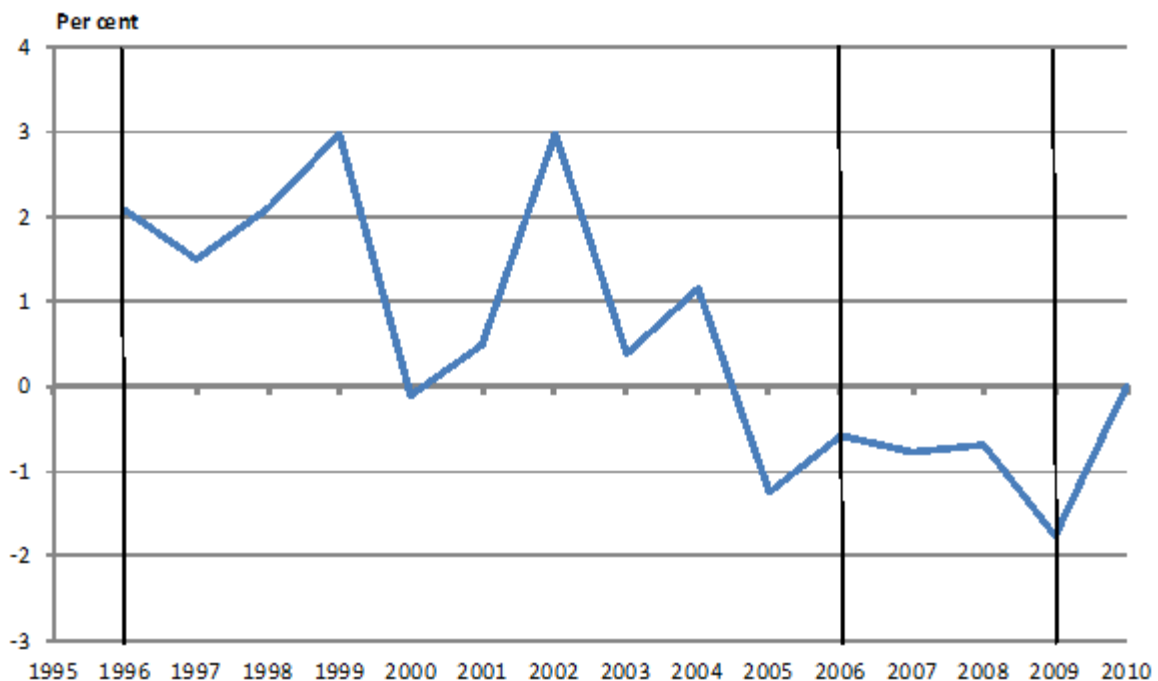
Source: ABS, *Australian System of National Accounts*, 2007-08 Catalogue No. 5204.0; ABS, *Australian System of National Accounts*, 2009-10, Catalogue No. 5204.0.

[The chart presents annualised labour productivity growth in the market sector over productivity cycles. Industries not included in the market sector are excluded

because their outputs are not marketed and/or because their outputs are derived either wholly or primarily by using either deflated input cost data or hours worked as indicators of output.]

The growth in multifactor productivity over the recent productivity cycles has been almost negligible as you can see from the figure in the lower (blue) half of the two boxes on the right hand side. Between 1998-99 and 2003-4 multifactor productivity grew at an annual rate of 1% and between 2003-04 and 2007-08 it declined at an annual rate of 0.8 per cent. Labour productivity, however, is a slightly brighter picture. It is shown in the figures on top of the boxes. In the two most recent cycles labour productivity increased at an annual rate of 2.3 per cent and 0.8 per cent. The annual data reveal a similar pattern.

**CHART B - Multifactor productivity (market sector) - annual**



Note: Data is the growth rate over the year to the June quarter. Data for multifactor productivity in the most recent release begins at 1995.

Source: Australian Bureau of Statistics, *Australian System of National Accounts 2009–10*, Catalogue No. 5204.0.

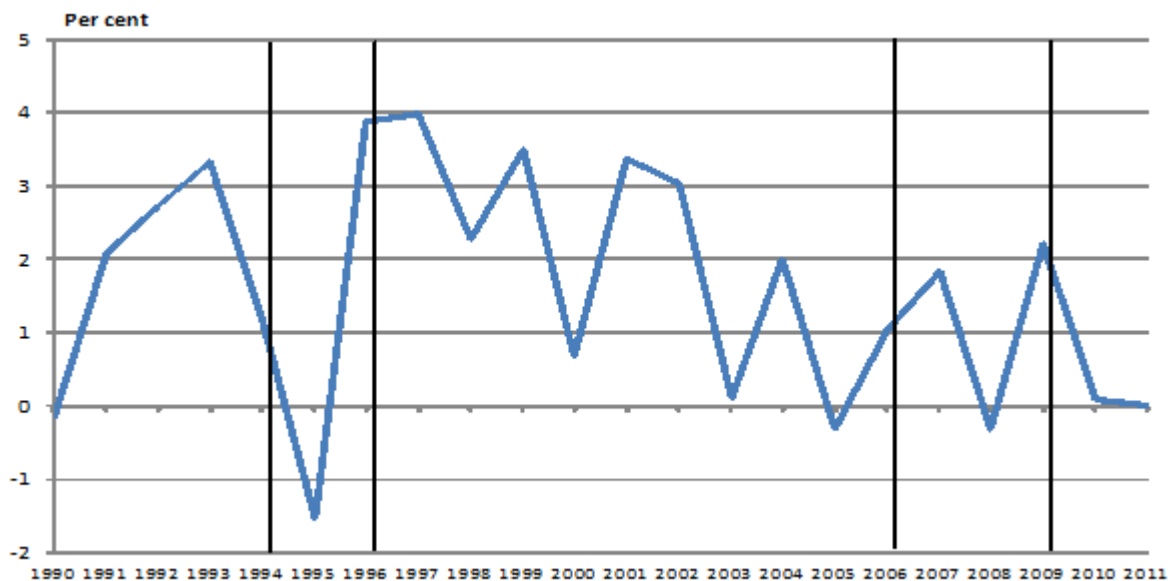
We can see that since 1996 multifactor productivity growth has reached 3% twice - in 1998 and 2002 - but has languished in negative territory since June 2005. And this is primarily what people are concerned about.

In this chart the vertical lines indicate the major changes in workplace relations legislation. The Workplace Relations Act 1996 commenced to operate at the end of 1996, the Work Choices legislation commenced in March 2006 and the Fair Work

Act commenced on 1 July 2009 and was fully implemented from 1 January 2010. It would be difficult on this evidence to establish any direct link between the type of industrial regulation and productivity growth. During the decade between 1996 and 2006, when the legislation was virtually unchanged, productivity grew for the first 5 or 6 years and then started to decline quite rapidly. The advent of Work Choices does not seem to have had any direct effect and it is to be assumed that other influences have been more important.

The labour productivity data are slightly more encouraging.

**CHART C - Labour productivity (all industries) - annual**



Note: Data is the growth rate over the year to the June quarter.

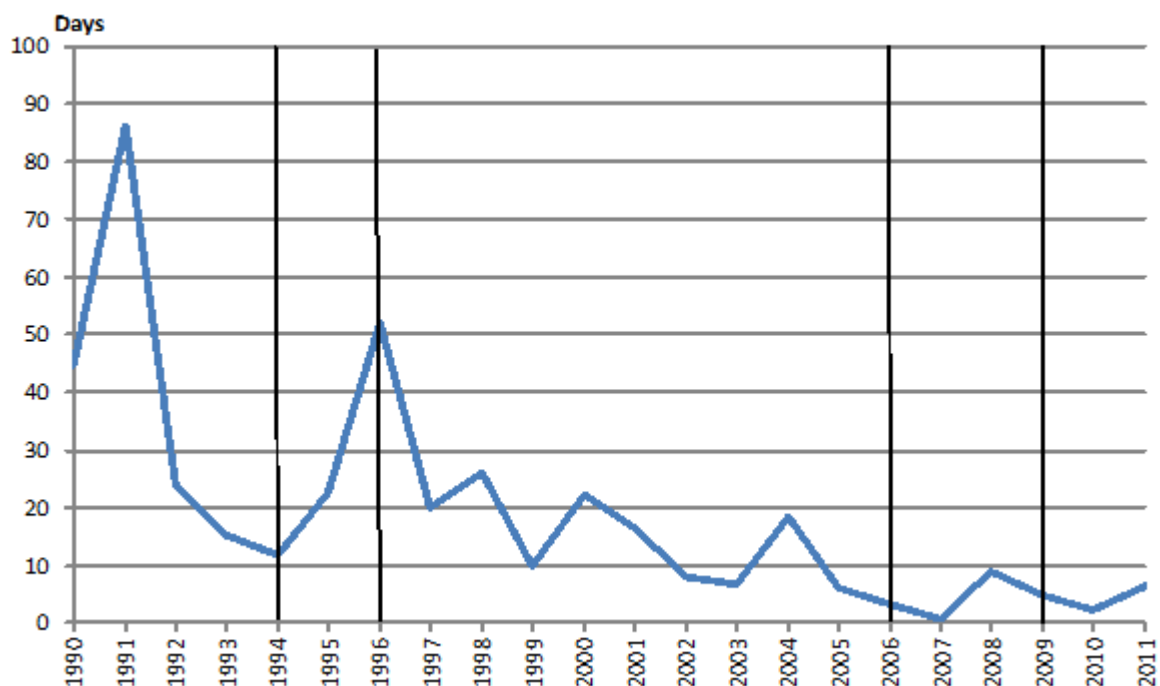
Source: Australian Bureau of Statistics, Australian National Accounts: National Income, Expenditure and Product, Jun 2011, Catalogue No. 5206.0.

On this chart you will see there are 4 vertical lines. The first, on the extreme left, marks the commencement of the *Industrial Relations Reform Act (1993)* on 30 March 1994. The other three lines, as on the previous chart, indicate the commencement of the 1996, 2006 and 2009 amendments. For the most part labour productivity growth has remained positive over the last two decades. Growth has been variable since the early noughties, say 2002, and has stagnated over the last two years.

There was a very significant but short-lived drop in labour productivity between June 1993 and June 1995, but it would be difficult to find any causal connection between that drop and the 1993 legislative changes. Equally it would be difficult to argue that there was a connection between the implementation of Work Choices in 2006 and the drop in labour productivity in 2008.

I am not suggesting that the nature of our industrial relations system is irrelevant to productivity performance. Clearly it is not. The nature and extent of regulation can have a significant influence in some industries, and the effect may be positive or negative. But the point which should not be lost sight of is that there are many things going on in the economy which influence productivity performance overall. Changes in legislation are capable of affecting particular parts of the economy quite significantly, but measuring these effects requires great care and even then it may not be possible to quantify them properly.

**CHART D - Industrial disputes - working days lost per 1000 employees**



Note: Data is the growth rate over the year to the June quarter.

Source: Australian Bureau of Statistics, *Industrial Disputes, Australia, Jun 2011*, Catalogue No. 6321.0.55.001.

The next chart shows the incidence of working days lost due to industrial disputation. Working days lost plummeted in the early nineties and apart from a short-lived resurgence in 1996, perhaps associated with some political developments, the trend has been down ever since. Since 2004 working days lost have remained below 10 per thousand employees per year. This is despite the significant amendments to the legislative arrangements and to the award system in 2006 and again in 2009. There is no observable impact on the level of disputation associated with those changes.

What does this chart reveal, if anything, about the connection between the workplace relations regulatory system and industrial action? It is possible that the reduction in strikes in the early 1990s was connected in some way to the

commencement of enterprise bargaining. On the other hand, a similar reduction in strike levels occurred at about the same time in most of the developed economies. And while disputation has remained at roughly the same level over the last 6 years, despite two quite significant changes in legislation, a possible explanation is that the legislated rules in relation to protected industrial action, apart from the introduction of pre-strike ballots in 2006, have been relatively, and I stress relatively, stable since 1996.

There are some important qualifications which should be made to what is otherwise a significant improvement in strike statistics. The first is that where strikes do occur the effect can be very severe for the parties directly concerned and it is no comfort to them that the national statistics are looking good. That should not be overlooked.

The second is that there are alternatives for employees who want to exert economic pressure on their employers. They can take, or not take, action which can affect production - or productivity - but which cannot be easily measured or identified. For that reason, strike statistics can be misleading in that they may understate employee protest action. This point leads to other questions about productivity and the contribution which employees can make to productivity improvement.

I recently attended a small conference in the UK on the question of employee engagement. Topics covered included dispute resolution, employee voice and the role of first line management. Many of you would be familiar with the significance of employee engagement. That in every job there is a component of discretionary employee input. The proportion of a given job which involves employee discretion varies of course, and the aim of increasing employee engagement is to tap unused discretionary effort. If the discretionary effort is increased only incrementally, the effect on productivity can be significant. It is not a very complex idea, but behind it lies a variety of considerations: design of organisations, dispute resolution systems, the role, authority and training of first line managers, provision for employee contribution, and so on. The effect of industrial regulation should also be considered in this context.

Can I leave you with something to consider? Without wishing to disparage any of the major political interests, much of the debate about productivity seems to be based on political positioning rather than on hard analysis. To some extent the political debate reflects the polarity between the major interests in workplace relations. Is there a need in Australia for a bipartisan or independent examination of our productivity performance with a view to recommendations for change. Perhaps a specially constituted inquiry with a balanced composition and agreed terms of reference would be appropriate. While we have so far been spared many of the problems of Europe and North America, the parts of our economy which are performing so robustly cannot be expected to continue to do so indefinitely. A relatively small number of industries may be protecting our economy from the

consequences of our productivity performance. One asks the question, what will happen if that protection fails and we are fully exposed to the competitive pressures of globalised markets.

While the evidence seems to indicate that productivity growth has been negligible for the last 6 or 7 years and has been negative for some years now, a number of explanations or rationalisations have been advanced. Some of them relate to the huge capital sums invested in projects which take time to mature and return significant profits. There are other explanations which are concerned with measurement issues. If an inquiry could establish that what seems to be a very poor productivity performance is just a statistical creation, the inquiry would have served a valuable purpose. But I doubt that would be the outcome. This is an area in which sound public policy formulation is sorely needed in the long term interest of the nation.

With that suggestion, I would like to thank you all for your attention and wish you an enlightening and enjoyable few days here in Fremantle.